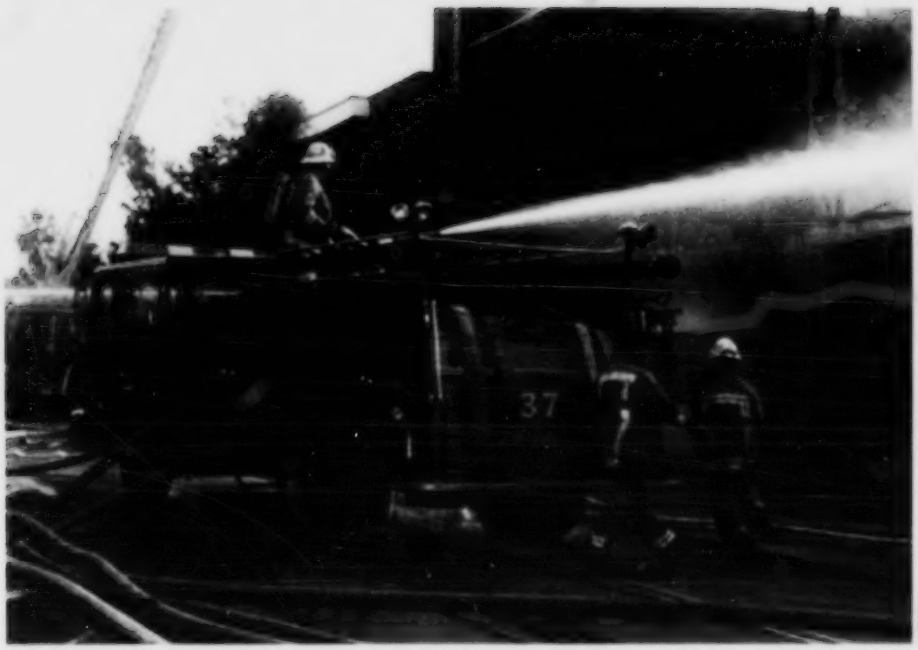
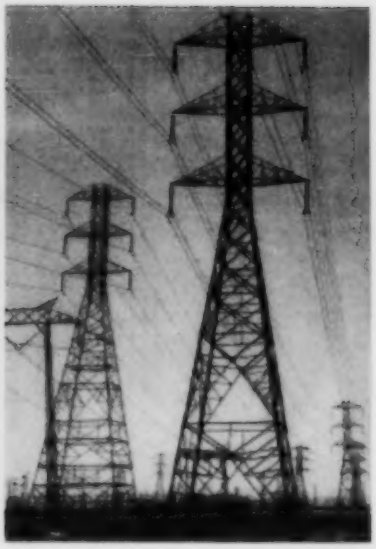
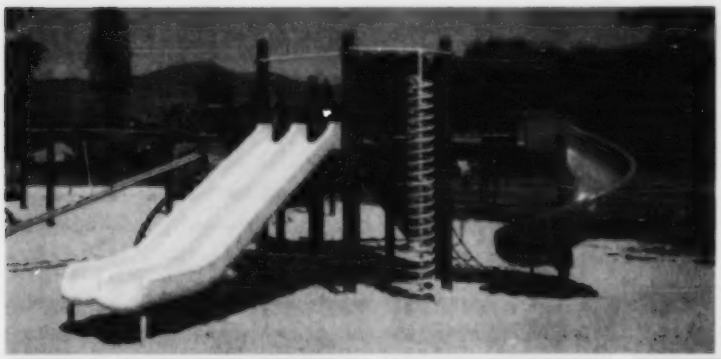
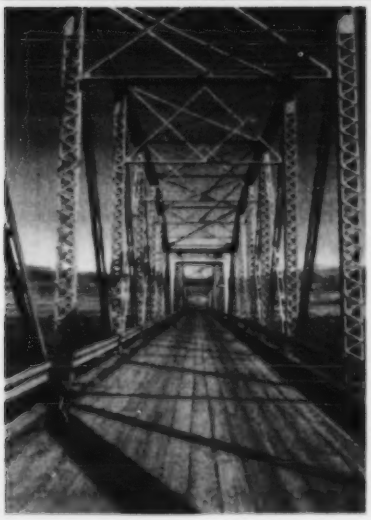


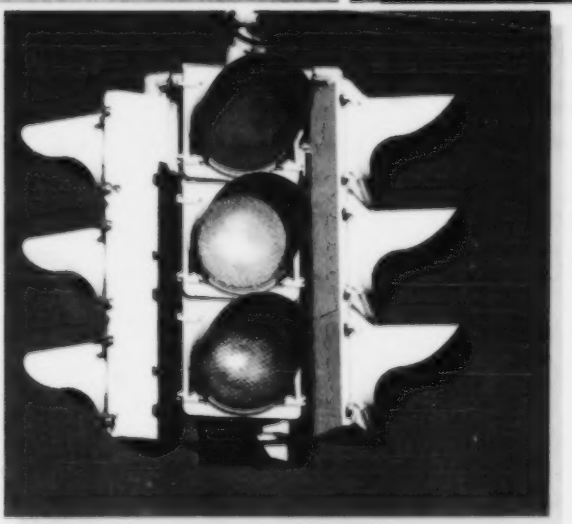


TANGIBLE CAPITAL ASSETS PROJECT

Implementation Toolkit







Alberta

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1.0 Overview

The tangible capital asset (TCA) accounting standard impacts all Canadian municipalities. Implementation of the standard will be one of the most challenging efforts that many local governments will face as municipalities will now be required to inventory, track and report on the value of their capital assets.

This change is effective for the 2009 fiscal year however if this date is to be achieved municipalities should begin project planning work immediately. The information and resources provided here will improve the potential for successful implementation of the new accounting standard. We hope this information will be useful. Please contact us with any comments or suggestions for the toolkit.

The Tangible Capital Asset Project Toolkit is the result of a collaborative effort involving many stakeholders that are impacted by this important change. Members of the Government Finance Officers Association, Alberta Chapter, have volunteered many hours of their time and expertise in the development of the recommended guidelines and other project materials. Appreciation is expressed to the TCA Liaison Committee which includes representatives from the Alberta Urban Municipalities Association, the Alberta Association of Municipal Districts & Counties, the Alberta Association of Rural Municipal Administrators, the Local Government Administration Association, and the Government Finance Officers Association. Harold Johnsrude of HJC Consulting has been instrumental in guiding the toolkit research and development.

Two icons are used in this toolkit to easily identify various sections:

Internet Link

Important Information

This toolkit is organized into five main areas, including implementation, policies and guidelines, asset inventory and valuation, budgets, and financial reporting. It also includes definitions, project newsletters, frequently asked questions, and information on how to obtain other resources.

An electronic version of the toolkit is available on the Municipal Excellence Network website (www.menet.ab.ca/TCA) and is updated on a regular basis so you are encouraged to check the site regularly for new materials and updates.

2.0 Implementation

The TCA project has borrowed from the concepts and work of the Ontario Municipal Benchmarking Initiative (www.ombi.ca/accounting.asp). As well, the Association of Municipal Clerks and Treasurers of Ontario website (www.amcto.com/db/assetmgmt.asp) is an excellent resource for draft implementation plans and other sample documents.

The materials below have been prepared specifically for the Alberta TCA project and are focused on implementation issues. We recommend that as a first step you become familiar with the requirements of Public Sector Accounting Board (PSAB) handbook section 3150 (page 6 of this toolkit).

2.1 PSAB Handbook Section 3150 – Summary of Key Provisions

"What is the benefit?" is one of the most often asked questions related to the tangible capital assets project. Chapter 1 of the CICA/PSAB *Guide to Accounting For and Reporting Tangible Capital Assets* (www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htm) provides some helpful information to answer this question. An excerpt from Section 5.0 outlines the answer as follows:

> *"From a management perspective, the key benefit to having local governments adopt tangible capital asset accounting is to obtain better information for decision making. While financial statements themselves will not necessarily provide detailed information about the stock, condition and costs of a local government's assets, it is the underlying information, records and discipline that allows such to be reported that gives local government the information it needs to make informed decisions."*

Those individuals with responsibility for implementation of the tangible capital asset requirements should be familiar with the contents of Public Sector Handbook Section 3150 (PS3150). The following information is organized in a summary format according to the key criteria, by paragraph references, which should be adhered to in order to comply with the new accounting standard. A complete text of the standard is also provided for reference as part of the implementation toolkit.

This summary may also be useful for discussions with elected officials, senior management in the organization and/or the public.

WHAT IS THE DEFINITION OF A TANGIBLE CAPITAL ASSET?

Tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges. (.02)

Tangible capital assets are non-financial assets having physical substance that:

i. are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;

ii. have useful economic lives extending beyond an accounting period;

iii. are to be used on a continuing basis; and

iv. are not for sale in the ordinary course of operations. (.05(a))

WHAT ARE THE RECORDING REQUIREMENTS?

- Tangible capital assets should be recorded at cost. (.09)
- The cost, less any residual value, should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the government. (.22)
- The amortization of the costs should be accounted for as expenses in the statement of operations. (.23)
- The amortization method and estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated. (.29)
- When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value. (.31) The net write-downs of tangible capital assets should be accounted for as expenses in the statement of operations (.32) and should not be reversed. (.33)
- The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations. (.38)
- Fully amortized assets still in use need to be recorded. (.48)

WHAT ARE THE REPORTING REQUIREMENTS?

- Tangible capital assets should be accounted for and reported as assets on the statement of financial position. (.07)
- The financial statements should disclose, for each major category of tangible capital assets, the total cost, accumulated amortization and net book value at the beginning and end of the period and the total additions, disposals, write-downs and amortization for the period. (.40)
- The financial statements should also disclose other information about tangible capital assets such as amortization methods and rates, tangible capital assets under construction, donated tangible capital assets, the nature of tangible capital assets recorded at a nominal value or considered to be works of art or historical treasures and the amount of interest capitalized in the period. (.42)

WHEN IS THIS REQUIREMENT EFFECTIVE AND WHAT ARE THE TRANSITIONAL PROVISIONS?

- The effective date for this requirement is for fiscal years beginning on or after January 1, 2009. (.43)
- A progress report on implementing this requirement is to be included in the notes to the financial statements beginning with the 2007 fiscal year. (.45)
- When a government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets. (.47)

2.2 PSAB Handbook Section 3150 – Tangible Capital Assets

PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report tangible capital assets in government financial statements.[1]

.02 Tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges.

.03 This Section does not apply to intangible assets, natural resources, and Crown lands that have not been purchased by the government.

.04 Government capital grants and government transfers of tangible capital assets would be accounted for in accordance with GOVERNMENT TRANSFERS, Section PS 3410.

DEFINITIONS

.05 For the purposes of this Section:

(a) **Tangible capital assets** are non-financial assets[2] having physical substance that:

(i) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;

(ii) have useful economic lives extending beyond an accounting period;

(iii) are to be used on a continuing basis; and

(iv) are not for sale in the ordinary course of operations.

(b) **Cost** is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at

[1] The term "financial statements" refers to the summary financial statements prepared by a government to report on its financial condition and results of operations.

[2] For the purposes of this Section, tangible capital assets are defined to include computer software.

the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset. The cost of a leased tangible capital asset is determined in accordance with PUBLIC SECTOR GUIDELINE PSG-2, Leased Tangible Capital Assets.

(c) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(d) **Net book value** of a tangible capital asset is its cost, less both accumulated amortization and the amount of any write-downs.

(e) **Residual value** is the estimated net realizable value of a tangible capital asset at the end of its useful life to a government.

(f) **Service potential** is the output or service capacity of a tangible capital asset, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life.

(g) **Useful life** is the estimate of either the period over which a tangible capital asset is expected to be used by a government, or the number of production or similar units that can be obtained from the tangible capital asset by a government. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to a government. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life.

ACCOUNTING

.06 Governments need to present information about the complete stock of their tangible capital assets and amortization in the summary financial statements to demonstrate stewardship and the cost of using those assets to deliver programs and provide services.

.07 Tangible capital assets should be accounted for and reported as assets on the statement of financial position.[3]

.08 Works of art and historical treasures are property that has cultural, aesthetic or historical value that is worth preserving perpetually. Works of art and historical treasures would not be recognized as tangible capital assets in government financial statements because a reasonable estimate of the future benefits associated with such property cannot be made. Nevertheless, the existence of such property should be disclosed (see paragraph PS 3150.42(e)).

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[3] APRIL 2005

MEASUREMENT COST

.09 Tangible capital assets should be recorded at cost.[4]

.10 The cost of a tangible capital asset includes the purchase price of the asset and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties. The cost of a constructed asset would normally include direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. The activities necessary to prepare a tangible capital asset for its intended use encompass more than the physical construction of the tangible capital asset. They include the technical and administrative work prior to the commencement of and during construction.

.11 The cost of each tangible capital asset acquired as part of a single purchase (for example, the purchase of a building and land for a single amount) is determined by allocating the total price paid for all of the tangible capital assets acquired to each one on the basis of its relative fair value at the time of acquisition.

.12 Many tangible capital assets, particularly complex network systems such as those for water and sewage treatment, consist of a number of components. Whether a government decides to record and account for each component as a separate asset will be determined by the usefulness of the resulting information to the government and the cost versus the benefit of collecting and maintaining it.

.13 When, at the time of acquisition, a portion of the acquired tangible capital asset is not intended for use, its costs and any costs of disposal, net of any estimated proceeds, are attributed to that portion of the acquired tangible capital asset that is intended for use. For example, the cost of acquired land that includes a building that will be demolished includes the cost of the acquired property and the cost of demolishing the building.

.14 Governments may receive contributions of tangible capital assets. The cost of a contributed asset is considered equal to its fair value at the date of contribution. Fair value of a contributed tangible capital asset may be estimated using market or appraisal values. In unusual circumstances, where an estimate of fair value cannot be made, the tangible capital asset would be recognized at nominal value.

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[4] SEPT. 1997

.15 The cost of a tangible capital asset that is acquired, constructed or developed over time includes carrying costs directly attributable to the acquisition, construction or development activity, such as interest costs when the government's policy is to capitalize interest costs.

.16 Carrying costs incurred while land acquired for building purposes is held without any associated construction or development activity do not qualify for capitalization.

.17 Capitalization of carrying costs ceases when no construction or development is taking place or when a tangible capital asset is ready for use in producing goods or services. A tangible capital asset is normally ready for productive use when the acquisition, construction or development is substantially complete.

.18 Determining when a tangible capital asset, or a portion thereof, is ready for productive use requires consideration of the circumstances in which it is to be operated. Normally it would be predetermined by a government by reference to factors such as productive capacity, occupancy level, or the passage of time.

.19 Costs of betterments are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. In general, for tangible capital assets other than complex network systems, service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered, the useful life of the property is extended or the quality of the output is improved.

.20 This definition of a betterment is more difficult to apply to tangible capital assets that are complex network systems and are very long-lived, such as highway and water systems, because identifying expenditures that would extend their lives may not be practicable. For example, expenditures on road systems to widen the roads or add to the number of lanes expand the capacity of the road system to provide services and are clearly betterments. On the other hand, expenditures incurred to maintain the originally anticipated service potential of a road, or its estimated useful life, are more in the nature of maintenance.

.21 For complex network systems, therefore, the following basic distinctions can be used to identify maintenance and betterments:

(a) Maintenance and repairs maintain the predetermined service potential of a tangible capital asset for a given useful life. Such expenditures are charged in the accounting period in which they are made.

(b) Betterments increase service potential (and may or may not increase the remaining useful life of the tangible capital asset). Such expenditures would be included in the cost of the related asset.

AMORTIZATION

.22 The cost, less any residual value, of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the government.[5]

.23 The amortization of the costs of tangible capital assets should be accounted for as expenses in the statement of operations.[6][7]

.24 Land normally has an unlimited life and would not be amortized.

.25 Most tangible capital assets, however, have limited useful lives. This fact is recognized by amortizing the cost of tangible capital assets in a rational and systematic manner over their useful lives. Amortization expense is an important part of the cost associated with providing government services, regardless of how the acquisition of tangible capital assets is funded. Information about a program or activity's total costs is relevant to any assessment of the benefits the program or activity provides.

.26 Different methods of amortizing a tangible capital asset result in different patterns of cost recognition. The objective is to provide a systematic and rational basis for allocating the cost of a tangible capital asset, less any residual value, over its useful life. A straight-line method reflects a constant charge for the service as a function of time. A variable charge method reflects service as a function of usage. Other methods may be appropriate in certain situations.

.27 Where a government expects the residual value of a tangible capital asset to be significant, it would be factored into the calculation of amortization.

.28 The useful life of a tangible capital asset depends on its expected use by the government. Factors to be considered in estimating the useful life of a tangible capital asset include:

(a) expected future usage;

(b) effects of technological obsolescence;

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[5] SEPT. 1997

[6] SEPT. 1997

[7] Editorial change — January 2003.

(c) expected wear and tear from use or the passage of time;

(d) the maintenance program;

(e) studies of similar items retired; and

(f) the condition of existing comparable items.

.29 The amortization method and estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.[8]

.30 Significant events that may indicate a need to revise the amortization method or the estimate of the remaining useful life of a tangible capital asset include:

(a) a change in the extent to which the tangible capital asset is used;

(b) a change in the manner in which the tangible capital asset is used;

(c) removal of the tangible capital asset from service for an extended period of time;

(d) physical damage;

(e) significant technological developments;

(f) a change in the demand for the services provided through use of the tangible capital asset; and

(g) a change in the law or environment affecting the period of time over which the tangible capital asset can be used.

WRITE-DOWNS

.31 When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value.[9]

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[8] SEPT. 1997
[9] SEPT. 1997

.32 The net write-downs of tangible capital assets should be accounted for as expenses in the statement of operations.[10][11]

.33 A write-down should not be reversed[12].

.34 A government would write down the cost of a tangible capital asset when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with a tangible capital asset have been reduced and a write-down is appropriate include:

(a) a change in the extent to which the tangible capital asset is used;

(b) a change in the manner in which the tangible capital asset is used;
(c) significant technological developments;

(d) physical damage;

(e) removal of the tangible capital asset from service;

(f) a decline in, or cessation of, the need for the services provided by the tangible capital asset;

(g) a decision to halt construction of the tangible capital asset before it is complete or in usable or saleable condition; and

(h) a change in the law or environment affecting the extent to which the tangible capital asset can be used.

.35 The persistence of such conditions over several successive years increases the probability that a write-down is required unless there is persuasive evidence to the contrary.

.36 When the tangible capital asset no longer contributes to the government's ability to provide goods and services, it would be written down to residual value, if any. This would be appropriate when the government has no intention of continuing to use the asset in its current capacity, and there is no alternative use for the asset.

.37 In other circumstances, it will be necessary to estimate the value of expected remaining future economic benefits. Where a government can objectively estimate a reduction in the value of the asset's service potential to the government, and has persuasive evidence that the reduction is

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[10] SEPT. 1997
[11] Editorial change — January 2003.
[12] SEPT. 1997

expected to be permanent in nature, the tangible capital asset would be written down to the revised estimate of the value of the asset's remaining service potential to the government.

DISPOSALS

.38 The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations.[13][14]

.39 Disposals of government tangible capital assets in the accounting period may occur by sale, destruction, loss or abandonment. Such disposals represent a reduction in a government's investment in tangible capital assets, regardless of how that investment is reported.

PRESENTATION AND DISCLOSURE

.40 The financial statements should disclose, for each major category of tangible capital assets and in total:

(a) cost at the beginning and end of the period;

(b) additions in the period;

(c) disposals in the period;

(d) the amount of any write-downs in the period;

(e) the amount of amortization of the costs of tangible capital assets for the period;

(f) accumulated amortization at the beginning and end of the period; and

(g) net carrying amount at the beginning and end of the period.[15]

.41 Major categories of tangible capital assets would be determined by type of asset, such as land, buildings, equipment, roads, water and other utility systems, and bridges.

.42 Financial statements should also disclose the following information about tangible capital assets:

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[13] SEPT. 1997
[14] Editorial change — January 2003.
[15] APRIL 2005

(a) the amortization method used, including the amortization period or rate for each major category of tangible capital asset;

(b) the net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;

(c) the nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements;

(d) the nature and use of tangible capital assets recognized at nominal value;

(e) the nature of the works of art and historical treasures held by the government; and

(f) the amount of interest capitalized in the period.[16]

TRANSITIONAL PROVISIONS FOR LOCAL GOVERNMENTS

.43 This Section applies to local governments for fiscal years beginning on or after January 1, 2009. Earlier adoption is encouraged.

.44 This Section applies to all tangible capital assets.

.45 When, during the period of transition, a local government has information on some but not all categories of its tangible capital assets, the local government would disclose information in accordance with PUBLIC SECTOR GUIDELINE PSG-7[17], Tangible Capital Assets of Local Governments.

.46 All government tangible capital assets would be recorded in a government's accounting system according to this Section. The information recorded would include the actual or estimated original cost of the tangible capital assets, their estimated useful lives and the related estimated accumulated amortization. When recording the initial value of a tangible capital asset for the purposes of applying this Section, consideration would be given to whether the net book value of the tangible capital asset is in excess of the future economic benefits expected from its use and, therefore, whether a write-down is required to establish more appropriate cost and accumulated amortization amounts for the asset.

.47 When a government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost

[16] SEPT. 1997
[17] On page 55 of this handbook.

and accumulated amortization of the assets. It may be possible to derive information for recording tangible capital assets from records of government departments that manage those assets. A government would apply a consistent method of estimating the cost of the tangible capital assets for which it does not have historical cost records, except in circumstances where it can be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset.

.48 Some government tangible capital assets that are still in use by the government may not have any unamortized cost remaining because of their age and the amortization period set for that type of tangible capital asset. A record of such tangible capital assets would, however, need to be set up for asset control purposes. If a government has the information to estimate the historical cost and accumulated amortization of such fully amortized assets, then that information would be recorded in the accounting records. If a local government does not have this detailed information on its fully amortized assets, it would disclose them at an initial value equal to their residual value, where material and previously known. Otherwise it would disclose them at a nominal value.

2.3 Developing an Implementation plan

The objectives of the tangible capital asset (TCA) project are clearly linked to improving the information that municipalities have available to drive good decision making and planning for capital asset needs. Successful implementation of the TCA requirement is an important step towards achieving better and more effective asset management. Developing an understanding of the concepts around better asset management will be beneficial as you build the implementation plan.

GETTING STARTED

As you begin to create a TCA project implementation plan, it is essential to take the time to familiarize yourself with the general requirements of Public Sector Handbook Section 3150. As well, other more detailed information is available from sources such as the Ontario "OMBI" initiative (www.ombi.ca/docs/db2file.asp?fileid=187) and the Public Sector Accounting Board manual (www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htm).

The tangible capital assets project is a major undertaking for any municipality, no matter the size or sophistication of the organization. Your implementation plan will need to address such things as:

- The status of your existing financial records
- Other sources of information available that could assist with assembling the necessary information; for example, engineering and maintenance records or asset replacement plans
- The kinds of assets the municipality owns, and where they are
- How to gather the necessary information such as asset descriptions, historical costs and valuation
- How the project will be prioritized in the organization
- How the project should be staged.

Creating an implementation budget is discussed in more detail below. However, part of the project planning process includes the development and approval of a multi-year budget up to and including 2009 in your overall implementation plan.

It is critical to review your implementation plan with your auditor.

PROJECT ORGANIZATION

The TCA project is more complex than a data collection process for the accounting staff and that message must be communicated at the outset throughout your organization. Rather, the project is an important step and an opportunity to develop a complete asset management system. A successful

implementation will require assistance from throughout the organization to complete the work.

As a first step arrange to meet with other department managers to provide a summary of the PSAB requirements and to stress the importance and the magnitude of the project. Other managers should be aware of the 2009 completion date and the 2007 work-in-progress report card that will be required. The fact that the TCA work will need to meet audit requirements is very important as well.

You will need assistance from the other departments to determine the types of tangible capital assets that will need to be inventoried. Use the recommended guideline on Asset Classification as your reference so that your reporting categories are consistent and will meet provincial financial reporting requirements in 2009 and beyond.

Depending on the size of the municipality, you should establish a project team, with a project manager and team leader for each department. Please note that the project manager should be conversant with all aspects of the project and be available to coach and instruct staff involved in this project; this is to ensure that the data will be consistent and reliable. Determine what resources will be required such as current staff, additional staff, and contracted work.

PROJECT SCHEDULE

Prepare a multi-year timetable for the project. Consider staging this project by starting with a major asset class that is relatively easy to inventory and to record, such as vehicles. The timetable should be in sufficient detail with target dates so that adjustments can be made as you proceed in order to stay on track for 2009.

POLICY DEVELOPMENT

The TCA project is as much about the future and improving asset management as it is about establishing the historical costs. Consequently, the development of capital policies such as asset definition, single asset versus component approach, valuation methods, amortization methods, capitalization thresholds, useful life, maintenance or betterment, and subsequent additions/disposals, will position your municipality to move forward following the 2009 initial implementation date.

COMPLETING THE ASSET INVENTORY

Once you have determined the required categories of capital assets and the necessary classifications within your organization, you can begin to identify potential data sources. For example, insurance records will be a good source of data for building assets. Identify the location of major assets. A possible approach is to use a map of the municipality to locate the major assets with unique identifiers. The level of asset detail will not only depend on TCA

requirements but what assets should be recorded for risk management, maintenance, security and safety reasons.

Identify the data set required for each asset; for example:

- Asset description
- Location
- Department responsible for asset
- Other unique identifiers
- Date of purchase/construction/placed into service
- Manufacturer and/or supplier
- Historical cost – actual or estimated
- Residual value
- Useful and remaining life

Develop inventory forms based on the information needs identified above. The forms should be designed with the understanding that the municipality will continue to maintain and update the inventory information in the future. In most cases, inventory forms will be somewhat unique to the major class of asset being inventoried and will have to be adapted to correspond to the data set that has been identified. Review the data input sequence with your software vendor to ensure system compatibility.

Other steps in the inventory process include:

- Determine how each asset will be identified for future reference; for example by location, bar code, or unit number
- Determine if the asset data will be collected manually or electronically
- Establish how the data will be transferred to the software system
- Test your inventory process and forms by taking one or two assets in each major class from 'cradle to grave', and
- Develop inventory instructions for each major asset class, and train the inventory recording staff.

Asset information will need to be stored in a database. Consider whether the information for each major asset class is best recorded as it is collected or, alternatively, when the entire inventory is completed for a major asset class. The first option is recommended but it may be easier to manage information and data if recording/transferring the data to the data base is done by major asset class upon completion of the respective major asset class or minor class in engineered structures.

Verify that the assets recorded agree with the assets inventoried; for example, the number of vehicles.

VALUATION, USEFUL AND REMAINING LIFE, RESIDUAL VALUE, AND AMORTIZATION

The choice of valuation method will differ between major asset classes and will also depend on the amount of financial data available in existing asset records. In the planning process it should be kept in mind that where the historical cost information is not available, estimates are acceptable. However, the approach must also be valid from the auditor's perspective.

Start the process by determining the various sources of actual historical cost information.

Identify which assets will predominantly require an estimated historical cost and develop the valuation method to be used. Develop the criteria and method to determine useful and remaining life and residual value.

Determine which amortization method will be applied for each major asset class and if some assets within the respective major class will require a different amortization method.

It should be noted that estimated costs will be available for most bridge files and there are plans to develop standard replacement costs for most engineered structures.

SOFTWARE REQUIREMENTS

As with the municipal auditor, your financial software provider is a key stakeholder and should be involved in the process early to avoid difficulties in the future. Meet with your software vendor to determine the following:

- How does the TCA data base interface with the general ledger?
- Is there a match between the data that must be recorded to meet the TCA requirement and what the database capability will allow you to record?
- What are the reporting capabilities of your existing system and what upgrades are scheduled or planned by the software vendor?
- Does the financial system interface with the asset management system?

In the event the TCA software is still under development, obtain the vendor's implementation schedule. Finally, determine what the costs will be to obtain the license to use the TCA module and subsequent annual TCA module license/maintenance.

LINK THE INVENTORY TO INTERNAL REPORTING

The existing general ledger chart of accounts will require additional accounts to record major and minor asset classifications, accumulated amortization, and the annual amortization expense.

Determine the level of detail in the general ledger versus using the TCA module so that most of the detail will be stored in the control accounts rather than in the general ledger.

Different internal users will require reports with varying degrees of detail. Each department should have responsibility for reviewing the respective TCA reports to check for accuracy in recording and amortization.

CONSULT WITH THE AUDITOR

In discussing the implementation plan with the auditor, determine what the auditor will require for the following verifications:

- Audit trail – hard copy or electronic data
- Verification of existence of the asset
- Valuation calculations
- Useful and remaining life

It is recommended that you request that the auditor begin reviewing the TCA work in progress as part of the 2007 audit and each subsequent year. Ask the auditor to provide an estimate of additional audit fees related to the TCA project.

BUDGETS AND FINANCIAL REPORTING

The TCA project will have a significant impact on municipal budgeting practices and on annual financial reporting requirements. For example, 2009 budgets will reflect an amortization expense. Financial statement presentation changes will coincide with the implementation of full cost accounting for tangible capital assets.

As a result, the implementation plan should consider the resources required to educate and train elected and appointed municipal officials on the revised budget process and interpreting the new financial statement formats.

More detailed information on changes to budgets and financial reporting will be provided at a later date.

AND AFTER 2009

The implementation plan will, by necessity, be focused on the 2009 target date. However, ongoing maintenance of the data base will be required in the future and will be audited annually.

Your plan should include steps to ensure that assets are recorded in the future as acquired or disposed, and that policies are developed that require regular review of asset condition, remaining useful life and amortization methods.

2.4 Developing an Implementation budget

There are many factors that will determine the financial requirements for your tangible capital assets (TCA) project implementation plan. Some of those factors are the size and complexity of the existing asset base, the condition of the municipality's historical records, and available inhouse expertise versus the need for outside consulting resources or temporary assistance.

The implementation plan should be developed and used to ensure that the implementation budget includes all the financial requirements for the TCA project. The budget will be multi-year because the TCA project will extend over several years before it is fully completed. There will be some additional costs in the 2009 implementation year and in 2010 as the first full audit and new financial statement presentation is done.

The following section is organized into a series of issues and related questions to consider as you prepare your implementation budget.

PLANNING AND POLICY DEVELOPMENT

The larger the municipality, the more time will be required by the project manager to coach and co-ordinate various departments and staff.

Questions:

- How much time is required to become familiar with the TCA requirements, develop a plan, develop capital policies and train staff?
- Will external expertise be required for planning and for policy development?
- Is there a need for a full-time or only a part-time project manager?

HUMAN RESOURCES

The TCA project will be very challenging from a human resource perspective as well as from a financial and planning one. It is important that you communicate the importance of the project throughout the municipality's planning process.

Questions:

- Can the inventory be done internally or will extra staff be required?
- Are summer students available?
- Will external expertise be required to identify and describe some of the assets?
- What will be required to train elected officials and administration in the revised budgeting and financial reporting?
- Will the auditor or other external expertise be required?

ASSET INVENTORY

As part of the planning process you should estimate the number of assets in each major asset class. This can be done with the assistance of department managers as one of the initial steps of the implementation plan. The estimated number of assets can be used to extrapolate total times and related costs for tasks such as conducting the inventory.

Questions:

- How large is the existing asset base?
- How long will it take to conduct an inventory of the TCA?
- What information sources exist for each of the major asset classes?
- How many assets are in each class?
- What data is required for each asset in a specific asset class?
- How will this data be collected?
- Can some of the on-hand data be obtained electronically, for example, land inventory from assessment roll?
- How many of the assets will require an estimate of historical cost?
- Are replacement cost standards available for most of the assets?

SOFTWARE NEEDS

Review the implementation plan and the inventory process with your software vendor. Software considerations should focus not only on accumulating historical costs but on establishing systems that will be useful and manageable in the future.

Questions:

- How much time will be required to learn the new software and to record each asset?
- What upgrades will be required to the IT system; hardware and software?
- Will there be additional software modules required? If so, what will be the initial license cost and annual license fees and maintenance costs? Will the initial cost include required training?
- Will the current hardware support this additional data requirement?

ENGINEERING ASSISTANCE

Most engineered structures will require some engineering expertise to identify the required asset data.

Questions:

- Will engineering expertise be required to calculate the valuation?
- What will be required to determine the total useful life, remaining life and residual value?
- Will engineering expertise be required to analyze the engineered structures?
- Is there sufficient internal expertise to determine this information for other assets such as machinery & equipment, vehicles and buildings?

AUDIT REQUIREMENTS

Additional time will be required by the auditor to review the implementation plan, policies and processes. The auditor will need to verify that all of the necessary assets have been recorded, valued and amortized accurately. There is also the requirement to audit the new reporting requirements.

Questions:

- How much additional time will be required by the auditor?

3.0 Policies and Guidelines

The recommended guidelines have been developed in consultation with the GFOA, circulated for comment and approved by the board of directors. As well, discussion documents on formulating a capital policy for your municipality and on the issue of recording road and bridge assets are included here.

The Public Sector Accounting Board manual is available at www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htm. It outlines many of the accounting issues that are key as you establish local policies for TCA implementation and for accounting for capital assets into the future.

Additional recommended guidelines are in development and will be available on the Municipal Excellence Network website (www.menet.ab.ca/TCA) as they are completed. Examples of those guidelines include recording shared assets and valuing donated assets.

The recommended guidelines on the following pages include:

#1 Asset Classification (page 25)

#2 Useful Life and Amortization Methods (page 29)

#3 Capitalization Thresholds (page 36)

#4 Determining Resource Needs for Implementation (page 38)

#5 Networks, Components and Segmentation (page 40)

Note: This recommended guideline and other information prepared by Alberta Municipal Affairs and Housing to assist municipalities in meeting the tangible capital assets requirements may be used by other municipal entities such as commissions.

Recommended Guidelines

3.1 Guideline #1 – Asset Classification

1. A recommended list of asset classifications will be available for use by all sizes and types of municipalities.

2. Major, minor and subclasses of tangible capital assets will be defined as:

- *Major* A group of tangible capital assets that is significantly different in design and use.
- *Minor* A classification within a major class that has unique characteristics.
- *Subclass* A further classification that may be required due to unique tangible capital asset criteria, applications, methodologies and asset lives. There is the option to classify further into subclass one, subclass two, subclass three, etc.

3. Tangible capital assets recorded in the Major classification will include:

- *Land*
- *Land improvements*
- *Buildings*
- *Engineered structures*
- *Machinery and equipment*
- *Vehicles*
- *Cultural and historical assets*

4. Definitions of major asset classifications:

a. **Land**
Land includes land purchased or acquired for value for parks and recreation, building sites, infrastructure (highways, dams, bridges, tunnels, etc.) and other program use, but not land held for resale.

b. **Land improvements**
All improvements of a permanent nature to land such as parking lots, landscaping, lighting, pathways, and fences.

c. **Buildings**
Permanent, temporary or portable building structures, such as offices, garages, warehouses, and recreation facilities intended to shelter persons and/or goods, machinery, equipment and working space.

d. **Engineered structures**
Permanent structural works such as roads, bridges, canals, dams, water and sewer, and utility distribution and transmission systems, including plants and substations.

e. **Machinery and equipment**
Equipment that is heavy equipment for constructing infrastructure, smaller equipment in buildings and offices, furnishings, computer hardware and software. This class does not include stationary equipment used in the engineered structures class.

f. **Vehicles**
Rolling stock that is used primarily for transportation purposes.

g. **Cultural and historical assets**
Works of art and historical treasures that have cultural, aesthetic or historical value that are worth preserving perpetually. These assets are not recognized as tangible capital assets in the financial statements, but the existence of such property should be disclosed. Buildings declared as heritage sites may be included in this asset classification.

5. Engineered Structures minor asset classifications

Minor classifications in the Engineered Structures major classification will be:

- Roadway system
- Light rail transit system
- Water system
- Wastewater system
- Storm system
- Fibre optics
- Electricity system
- Gas distribution system

Buildings, and machinery and equipment, will be grouped in a subclass for the minor classes of water, light rail transit, wastewater, storm water, electric, gas and fibre optics. This treatment is an exception to the recommended approach to classifying tangible capital assets to better report the cost of distribution and transmission systems.

6. Definitions of Engineered Structures minor classes

a. **Roadway system**
Assets intended for the direct purpose of vehicle or pedestrian travel or to aid in vehicle or pedestrian travel. Includes roads, bridges, overpasses, ramps, parkades, lights, sidewalks and signage.

b. **Light rail transit system**
A system to provide light rail transit service to the public. Includes track, stations, tunnels, bridges, lines, fare collection equipment, communications and electrical systems.

c. **Water system**
Systems for the provision of water through pipes or other constructed convey. It is normally comprised of assets for the intake, distribution, storage and treatment of safe potable water. It may also be comprised of assets required to distribute non-potable water. Includes mains, services, pump and lift stations, plants and equipment, reservoirs and fire hydrants.

d. **Wastewater system**
Wastewater is defined as water that has been used for household, business and other purposes, which flows from private plumbing systems to public sanitary sewers and on to a treatment plant. This system is comprised of assets used for the collection and treatment of non-potable water intended for return to a natural water system or other originating water source or used for other environmentally approved purposes. Includes mains, services, pump and lift stations, plants and equipment and lagoons.

e. **Storm system**
Assets used for the collection, storage and transfer of water as a result of rain, flood or other external source to a natural water system. Includes mains, services, catch basins, pump and lift stations, outfalls and retention ponds.

f. **Fibre optics**
Fibre optics is defined as technology that uses glass or plastic threads (fibres) to transmit data. A fibre optic cable consists of a bundle of threads, each capable of transmitting messages modulated onto light waves. This system is comprised of the assets necessary to transmit data through a fibre optic cable.

g. **Electricity system**

*i. **Electrical generation***

The large-scale production of electric power for industrial, residential and rural use; generally in stationary plants designed for that purpose. Includes boilers, turbo generators, combustion turbines, wind turbines and gas compressors.

*ii. **Electrical transmission***

The portion of the system that carries high power over the longest distances and is normally the highest voltage network of an electric utility system. Includes underground and overhead cable, conductors, transformers and towers.

*iii. **Electrical distribution***

The assets that distribute the electricity to consumers from a bulk power station. Includes the substation and the lines and equipment from the substation.

h. **Gas distribution system**

A system that delivers gas to customers through a system of pipelines, works, plant and equipment. Includes low and high pressure pipe and meters.

7. The Major classifications for tangible capital assets, and the minor classifications under Engineered Structures, should be consistently used by all Alberta municipalities for financial reporting.

8. Municipalities should be encouraged to use the recommended asset classifications, but the decision regarding the level of detail will remain with the municipality.

9. The following principles should be considered when determining the level of detail to be used in recording tangible capital assets:

a. Sufficient detail should be kept to provide the necessary information for an asset management system.

b. Factors determining further classification are:
   - Different useful life.
   - Variable timing of construction; for example, a road may have segments constructed at different time intervals.
   - Better data for costing, determining user fees and analyzing performance of departments, divisions or business units.

3.2 Guideline #2 – Useful Life and Amortization Methods

1. Municipalities should use a useful life not greater than the recommended maximum life in Appendix A (page 31). The length of the useful life for an asset will depend on the asset quality and its intended use.

2. In some situations, the useful life may be expected to be longer than the recommended life. In such instances, the municipality will need to provide adequate documentation supporting the decision to extend the life beyond the recommended maximum.

3. The information sources used to determine the recommended maximum useful life are:

a. Governmental Accounting Focus – Estimated Useful Lives for Capital Assets by Paul E. Gruenwald, American Appraisal Associates.

b. Alberta municipalities/GFOA technical working group

4. Common amortization methods are:

a. *Straight-line*
The straight-line method assumes that the asset's economic usefulness is the same each year and the repair and maintenance expense is essentially the same each period. The amortization amount is determined by dividing the asset's original cost by its estimated life in years.

b. *Unit of use or output method*
The unit of use or output method determines depreciation as a function of use or productivity. It is used for assets which deteriorate based on usage and may be designed to produce a finite amount of product or service. This method determines depreciation based on asset output by dividing an asset's cost by its total expected productive output and multiplying the cost per unit by the actual production to date. Examples of when this method can be used is kilometres on vehicles, hours of equipment use and volume of material processed in landfills.

c. *Declining balance*
The declining balance method is another method where amortization is considered as a function of usage instead of a function of time. The periodic charge is a constant percentage of the unamortized cost, so that the depreciated cost approaches zero by the retirement date. This method could be used when an asset depreciates significantly faster in the early years of its useful life.

5. The straight-line amortization method is most common and may be used to amortize all assets excluding land. Land is not a depreciable asset. Other amortization methods may be more appropriate to allocate the historical cost of the asset over its useful life and will provide a better estimate of the remaining useful life.

6. Residual value should be determined and deducted from the gross cost of the asset before the depreciation amount is determined.

7. In the year of acquiring an asset, putting an asset into service or disposing of an asset, it is suggested that municipalities record 50 percent of the annual amortization amount. Other generally accepted amortization methods may be consistently applied.

8. The useful life or amortization method of an asset may require revision during its life due to significant events as outlined in PS 3150.30. The effect of this change would be recorded in the year of revision and future years.

9. There will be some infrastructure systems which will have components with different useful lives. Recommended Guideline #5, 'Networks, Components and Segmentation' (on page 40) provides further information on these situations.

APPENDIX A:
RECOMMENDED MAXIMUM USEFUL LIFE

Asset Classes **Major** ***Minor*** **Sub-class One** ***Sub-class Two*** **Sub-class Three**	**Maximum Useful Life**
Land	
Right-of-way	
Undeveloped right-of-way	
Parks	
General	
Cultural & Historical Assets	
Public art	
Historical	
Heritage site	
Land Improvements	
Parking lot	
Gravel	**15**
Asphalt	**25**
Playground structures	**15**
Landscaping	**25**
Fences	**20**
Sprinkler systems	**25**
Golf courses	**45**
Tennis courts	**20**
Fountains	**20**
Lakes/ponds	**25**
Retaining walls	**20**
Running tracks	**15**
Outdoor lighting	**20**
Airport runways	**10**
Soccer pitch - outdoor	**20**
Bike/jogging Paths	
Gravel	**15**
Asphalt	**20**
Landfill	
Pits	**Volume**
Pads	**Volume**
Transfer stations	**25**
Construction in progress	
Buildings	
Permanent Structures	
Frame	**50**
Metal	**50**
Concrete	**50**
Portable Structures	
Metal	**25**
Frame	**25**
Leasehold improvements	**Variable**
Construction in progress	

Asset Classes **Major** ***Minor*** **Sub-class One** ***Sub-class Two*** **Sub-class Three**	**Maximum Useful Life**
Engineered Structures	
Roadway system	
Bridges	**Variable**
Overpass/interchange	**60**
Curb & gutter	**30**
Parkades	**50**
Roads & streets	
Lanes/alleys	
ACP - hot mix	**20***
Gravel	**15***
Nonconforming	**20***
Local/Collector/Arterial/Major Arterial	
Surface	
Concrete	**30***
ACP - hot mix	**20***
ACP - cold mix	**10***
Chip seal	**10***
Oil	**5***
Gravel	**25***
Subsurface	**40***
Road signs	
Traffic control	**30**
Information	**30**
Lights	
Decorative	**30**
Street	**30**
Traffic	**30**
Guard rails	**30**
Ramps	**30**
Sidewalks & para-ramps	**30**
Light rail system	**65**
Construction in progress	
(* subject to weather conditions)	
Water system	
Distribution system	
Mains	**75**
Services	**75**
Pump, lift and transfer stations	**45**
Plants and facilities	
Structures	**45**
Treatment equipment	
Mechanical	**45**
Electrical	**45**
General	**45**
Pumping equipment	**45**
Hydrants/fire protection	**75**
Reservoirs	**45**
Construction in progress	

Asset Classes **Major** ***Minor*** **Sub-class One** ***Sub-class Two*** **Sub-class Three**	**Maximum Useful Life**
Wastewater system	
Collection system	
Mains	**75**
Services	**75**
Pump, lift and transfer stations	**45**
Plants and facilities	
Structures	**45**
Treatment equipment	
Mechanical	**45**
Electrical	**45**
General	**45**
Pumping equipment	**45**
Lagoons	**45**
Construction in progress	
Storm system	
Collection system	
Mains	**75**
Services	**75**
Pump, lift and transfer stations	**45**
Catch basins	**75**
Outfalls	**75**
Wetlands	**75**
Retention ponds	**75**
Treatment facility	**45**
Construction in progress	
Fibre optics	**30**
Electrical System	
Electrical generation	
Boilers	**30**
Turbo generators	**30**
Combustion turbines	**20**
Condensate tanks	**10**
Gas compressors	**20**
Other	**10**
Generation Wind/Turbine	**30**
Construction in progress	
Electrical Transmission	
Structures & improvements	**35**
Station & line equipment	
Transformers	**40**
Switchgear	**35**
Protection systems	**20**
Insulators	**60**
Other structures & equipment	**35**
Towers and fixtures	**38**
Poles and fixtures	**38**

Asset Classes **Major** ***Minor*** **Sub-class One** ***Sub-class Two*** **Sub-class Three**	**Maximum Useful Life**
Overhead (O/H) conductors & devices	**35**
Underground (U/G) conductors & devices	**40**
U/G conduit	**40**
U/G cable	**40**
Construction in progress	
Electrical Distribution	
Site development	**35**
Station & line equipment	
Transformers	**40**
Switchgear	**35**
Protection systems	**20**
Insulators	**60**
Towers and fixtures	**38**
Poles and fixtures	**38**
O/H conductors & devices	**35**
U/G conductors & devices	**40**
U/G conduit	**40**
Construction in progress	
General Plant - Electrical	
Site development	**80**
Electrical substations	
Site development	**35**
Station & line equipment	
Transformers	**40**
Switchgear	**35**
Protection systems	**20**
Other structures & equipment	**35**
Towers and fixtures	**38**
Poles and fixtures	**38**
O/H conductors & devices	**35**
U/G conductors & devices	**40**
U/G conduit	**40**
U/G cable	**40**
Construction in progress	
Gas distribution system	
Structures	**75**
Transmission	**75**
Services	**75**
Medium pressure	**36**
High pressure	**36**
Measurement	**35**
Construction in progress	

Asset Classes **Major** ***Minor*** **Sub-class One** ***Sub-class Two*** **Sub-class Three**	Maximum Useful Life
Machinery and Equipment	
Heavy construction equipment	Variable
Stores	25
Food services	10
Fire equipment	12
Police special equipment	10
Aircraft	Variable
Boats	25
Fitness and wellness	10
Control systems	5
Communication links	20
SCADA system	10
Fuelling stations	15
Laboratory	10
Communications	
Radios	10
Telephone systems	10
Tools, shop and garage equipment	15
Scales	15
Bins	15
Meters	
Electrical	20
Cumulative	20
Interval	20
Gas	20
Water	40
Parking meters and splitters	20
Turf equipment	10
Ice re-surfacer	10
Office Furniture & Equipment	
Furniture	20
Office equipment	10
Audiovisual	10
Photocopiers	5
Computer Systems	
Hardware	5
Software	10
Construction in progress	
Vehicles	
Light duty	10
Medium duty	10
Heavy duty	10
Transit buses	20
Fire trucks	25
Light rail transit cars	40
Construction in progress	

3.3 Guideline #3 – Capitalization Thresholds

1. Capitalization threshold is defined as the minimum value of an expenditure that meets the criteria of a tangible capital asset and that will be recorded as a tangible capital asset.

2. Each municipality should develop a policy establishing the capitalization threshold for each major asset class for their respective municipality.

3. PS 3150 does not determine the appropriate capitalization thresholds for a tangible capital asset. PS 3150.05 (a) defines tangible capital assets to be non-financial assets having physical substance that:

a. are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;

b. have useful economic lives extending beyond an accounting period;

c. are to be used on a continuing basis; and

d. are not for sale in the ordinary course of operations.

4. Factors used to determine the capitalization threshold for expenditures which meet the definition of a tangible capital asset in PS 3150.05, but will be expensed are:

a. Materiality
Will the multiple expenditures for tangible capital assets valued below the capitalization threshold and, therefore, expensed rather than capitalized, result in a material misstatement of the financial statements?

b. Record keeping
Is the capitalization threshold so low that the cost to record and track each asset would be too expensive or impractical?

c. Asset management
Is the capitalization threshold at an appropriate value so that most tangible capital assets which require long-term planning for maintenance and replacement will be recorded?

d. Rate setting
Is the capitalization threshold at an appropriate value so that cost recovery rates reasonably reflect the cost of operations?

5. The materiality factor should not be the main factor in determining the level of the capitalization threshold, but the capitalization threshold needs to meet the minimum requirements for materiality. Asset management may be the key factor so that good information is available to the municipality for future planning.

6. Each municipality should have a discussion with its auditor about the minimum capitalization threshold necessary to meet materiality requirements.

7. There will not be a capitalization threshold for Land. All land, excluding land held for resale, is to be capitalized because of the permanent nature of land.

8. Value per item rather than the value of a group of similar items will be the value used to determine if the tangible capital asset should be capitalized.

9. All assets within a major asset class should have the same capitalization threshold.

10. Assets that are still in active use but that are fully amortized should be recorded at the original cost with full amortization until such time as the asset is no longer in use.

11. Principles to be used when developing capitalization thresholds are:
    a. Asset management should be a key decision driver.
    b. Accounting policy should not drive business decisions.
    c. Systems should be designed to be practical and not cumbersome.
    d. Good professional judgement is essential.
    e. Capitalization policies should be reviewed with your auditor.

12. Expenditures that meet both the criteria of a tangible capital asset and exceed the following suggested capitalization thresholds are to be recorded as a tangible capital asset:

Asset Description	Cities*	Towns	Villages	Rural Municipalities
Land	–	–	–	–
Land Improvements	10,000	5,000	2,000	5,000
Buildings	100,000	25,000	10,000	50,000
Engineered Structures	100,000	25,000	10,000	50,000
Machinery & Equipment	10,000	5,000	2,000	5,000
Vehicles	10,000	5,000	2,000	5,000

* Includes the specialized municipalities of Strathcona County and the Regional Municipality of Wood Buffalo.

13. The cumulative cost of tangible capital assets purchased and expensed because the asset value is less than the capitalization threshold, will be reviewed by the auditor for materiality purposes. Therefore, the municipality should estimate the annual amount of unrecorded tangible capital assets and discuss this amount with its auditors to determine if the respective threshold levels are appropriate.

3.4 Guideline #4 – Determining Resource Needs for Implementation

1. Local governments will be required to record and amortize their capital assets beginning with the 2009 reporting year. Planning and preparation must begin in 2007 to ensure that municipalities are able to comply with the new tangible capital asset requirements and changes to budget processes and financial reporting.

2. The major impact from the perspective of time and money will be the initial implementation and compliance, including preparing an inventory of capital assets, determining a valuation for those assets, establishing capital policies and implementing changes to budget processes and financial reporting. Ongoing maintenance of the capital asset inventory going forward will involve extra staff time and audit costs, but of a lesser magnitude.

3. The costs for implementation will vary between municipalities. Factors may include administrative staffing levels and the financial and engineering expertise of current staff. The condition of a municipality's historical records will also have a significant impact on the related implementation costs. Potential expenses will include staff time, consulting, software upgrades and audit fees.

4. No attempt has been made to quantify the costs that a municipality may expect to incur. Each municipality is responsible for identifying the resources required and for estimating the related costs specific to its situation.

5. Implementation plans must factor in both human and financial resources. The following table shows some key areas to consider when developing an implementation plan and determining the associated costs.

Resource	Activity
Personnel	• Project planning • Training/education/awareness • Policy development • IT requirements/upgrades • Recording of assets • Inventory and valuation • Documentation • Meeting audit requirements
Consultants/Specialists	• Assisting staff with additional work • Inventory and valuation • Engineering services • IT requirements/upgrades • Training & education

Resource	Activity
Auditors	• Commenting on project plans • Commenting on capital policies • Auditing inventory & valuations • Reviewing financial processes/software • Auditing new reporting requirements

3.5 Guideline #5 – Networks, Components and Segmentation

Municipalities will need to decide how to record assets such as engineered structures and systems. The options available are the network approach or component approach. The network approach is also referred to as single asset or total asset. The approach used will also determine the treatment of subsequent expenditures to the asset and whether these expenditures will be considered 'maintenance' or a 'betterment' of the respective asset. Another important decision will be whether the system should be recorded in segments.

Detailed information on this topic is available in the documents of Ontario Municipal Benchmarking Initiative (OMBI) (www.ombi.ca/accounting.asp) and the Canadian Institute of Chartered Accountants (CICA) (www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htmhttp://www.menet.ab.ca/docs/PSG-7_Accounting_Guideline_for_TCA.pdf).
Those details will not be restated here but the following is a brief summary that includes some of the considerations for each approach to help municipalities in make the necessary decisions on how to record infrastructure assets.

1. Network Approach

   This approach views an asset as one unit even if the respective asset is comprised of a number of significant components. This is the simplest form of recording assets.

   - Less intensive, less detail
   - Easier to track
   - Historically easier to value
   - Easier to value donated assets such as subdivision infrastructure
   - More difficult to establish capitalization thresholds
   - More difficult to determine the value of the portion of the asset replaced (see betterment or maintenance section).

2. Component Approach

   This approach identifies major, significant components of an asset. Each component with a unique historical cost, useful life or amortization method is recorded separately.

   - Provides a better basis for asset management

- Easier to be more accurate in amortization and determining useful life, resulting in more accurate financial reporting
- Easier to deal with the uniqueness of components
- Achieves program costing
- Better matching of cash outlay with replacement
- More detail, resulting in more time required to maintain the asset recording system.

3. Segments

   Linear systems may be divided into segments or sections. These segments are generally determined by geographical location.

   - Provides a better basis for asset management
   - Easier to provide more accurate information
   - Easier to identify costs of the asset replaced
   - More detail information is required, resulting in additional time to maintain the asset recording system.

4. Betterment or Maintenance
   The information in PS Handbook Sections 3150.19-21 and supporting documents provide sufficient explanations on the decisions regarding betterment or maintenance expenditures.

5. Municipalities may decide to record less detail on some existing assets by using a combination of the network and component approach. However, as municipalities continue with the project, they may decide to record more detailed component and segmented information going forward.

6. An important principle to remember is that recording more reasonable and manageable amounts of detail increases the potential of an improved asset management system and improved financial reporting.

7. Additional information and examples of recording engineered structures and systems can be found in other documents such as:

   a. OMBI Implementation Guide – Version 2 Chapter 2, pages 13-19 (www.ombi.ca/docs/db2file.asp?fileid=183)

   b. CICA/PSAB *Guide to Accounting For and Reporting Tangible Capital Assets* (www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htm)
   Chapter 2, Section 5.0, page 20
   Chapter 4, Section 2.0, pages 39-44

Policies

3.6 Capital Policy Development Guideline: Introduction and Approach

Your municipality needs to develop policies to record and report tangible capital assets. These policies must be a proper fit for the municipality and must meet the requirements of Public Sector Handbook Section 3150 - Tangible Capital Assets.

Capital policies will vary for each municipality because there can be different approaches to accounting for tangible capital assets that still comply with PS 3150. This capital policy development guideline outlines the policies that your municipality should have in place and provides information to consider when preparing these policies. ***This is not a draft capital policy.***

Your municipality can choose between having one policy that addresses all of the necessary topics or multiple policies as part of a capital policy section of the policy manual. The main topics identified in this guideline can be subsections of one capital policy or treated as separate policies. The guideline is organized by topic name, questions to consider and suggested options.

There are sample policies available in current literature including:

CICA/PSAB Guide to Accounting for and Reporting Tangible Capital Assets

Development of Tangible Capital Asset Accounting Policies (Chapter 4, Section 1.0, page 39)
Sample Tangible Capital Asset Policy (Appendix C, page 94)
www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htm

OMBI Implementation of Accounting for Tangible Capital Assets – Reference Manual (Appendix A-15, page 141)

www.ombi.ca/docs/db2file.asp?fileid=187

1. Authority, Purpose and Scope

This policy provides the basis for all capital policies of the municipality, including the premise for recording tangible capital assets. Your policy should address the following broad areas:

a. What is the purpose and scope of a capital policy (or policies)?

Start with a general statement about the importance of having capital policies to:

- achieve the consistent recording of tangible capital assets, and
- to help with the preparation of financial statements that will comply with generally accepted accounting principles. The scope of these policies should be mentioned. To do this, state that the policies should include all departments and organizations that the municipality is responsible to include in its reports. The specific organizations should be identified.

b. What is the authoritative basis and who has the authority?

PS 3150 *Tangible Capital Assets* is the basis for developing these capital policies, but your municipality will be required to make some internal decisions to specifically meet the requirements of PS 3150. Authority should be defined and may include some of the following issues:

- Who is responsible to ensure that this capital policy (s) is followed?
- Who prepares and reviews the implementation plan and develops implementation budgets?
- How are policy amendments handled?
- Who makes the final decision in the event of disagreement regarding policy application or interpretation?

c. What is the implementation plan?

You can expect that it may take more than one year to fully implement the strategies to meet the requirements of PS 3150. In the absence of organization business plans, some key elements of the implementation plan may need to be included in the policy.

d. *What is the effective date*?

The compliance date is to be no later than 2009, but municipalities may choose an earlier date. Include a statement here about the date by when all tangible capital assets will be recorded and reported.

e. Are there specific expenditures which should be recorded?

Your municipality may find it appropriate to provide a general statement about some assets that are exempt from recording by policy, but which need to be recorded for reasons such as risk management, security, safety and environmental considerations. A separate policy may be required to identify the specific situations and treatment; for example, some assets may be recorded for tracking purposes, but treated as an expense and not amortized for financial statement reporting purposes.

2. Definition and Classification of Assets

The broad and, in some cases, specific definitions of assets will be addressed in this policy. Your municipality should identify the level of detail in classifying these assets, and include the following areas:

a. Definitions:

The following definitions can be stated:

i. The broad definition of a tangible capital asset as stated in PS 3150.02 and .05(a).

ii. The definitions of the major classifications (Clause 4) and the minor classifications of engineered structures (Clause 6) of Recommended Guideline #1 – Asset Classification which should be used by all Alberta municipalities (page 25).

b. Classifications

In this section, your municipality needs to decide about the level of detail in the tangible capital asset records. It is recommended that your municipality use the major classifications as mentioned under *Definitions*. Recommended Guideline #1 should be used to help make classifications decisions. The key questions to ask are: What data is required to analyze the cost and performance of business units, determine user fees and plan for future financial requirements? Further classification may also be determined by factors such as useful life and variable timing of construction of assets. Your municipality may find it appropriate to have an appendix to this section to identify the specific classification as presented in Appendix A of Recommended Guideline #2 (page 31).

c. Capital leases

Your municipality will need to determine if its capital leases are to be treated as a tangible capital asset. If so, the policy should define or reference when this treatment is required. From your municipality's point of view, a capital lease is a lease that substantially transfers all the

benefits and risks of property ownership to the municipality. (Section 3065.03(a) CICA Handbook) This would normally occur when one or more of the following conditions are present at the inception of the lease:

i. There is reasonable assurance that the municipality will obtain ownership of the leased property by the end of the lease term.

ii. The lease term is of such duration that the municipality will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its lifespan.

iii. The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. (Section 3065.06 CICA Handbook)

d. Specific situations

Sometimes, your municipality may develop definitions and related procedures for specific situations. These should be included in the policies to achieve the objective of consistent application. Some examples are road allowances, land improvements and gravel pits.

3. Recording and Valuing Assets

Developing and maintaining a good recording system is crucial to meeting the requirements of PS 3150 and managing the municipality's assets. This section will identify what your municipality needs to consider when developing a system.

a. Recording the asset

Your municipality needs to carefully consider what assets should be recorded and what information should be recorded for each type of asset. Factors to consider when making these decisions are materiality, record keeping, asset management and rate setting. The asset record system needs to be manageable, but provide sufficient information for good business decisions.

i. What information should be recorded for each asset class to meet the PS 3150 requirements? Is there additional information that should be recorded to improve asset management and financial planning?

Refer to the Asset Inventory and Valuation section of this toolkit for detailed information on the asset register data requirements.

ii. What assets should be recorded?

- *Capitalization thresholds*
  Some expenditures that meet the definition of a tangible capital asset should be treated as an operating expense. This is because their value is low and the cost of recording and tracking the asset is

greater than the resulting benefit. The capitalization threshold or recognition threshold is the minimum value of a tangible capital asset to be recorded. Your municipality needs to determine what the appropriate threshold would be for each major asset for your organization. Recommended Guideline #3 – Capitalization Thresholds (page 36) provides additional information and suggested maximum capitalization thresholds. The guideline recommends that all land be capitalized.

- *Is an expenditure betterment or maintenance?*
  There will be subsequent expenditures on existing assets. In these cases, your municipality should have a policy to determine the situations where the expenditure would be added to the value of the existing asset, or if the expenditure should be recorded as an operating expense. For example, a policy may state that betterments would occur when physical output or service capacity is increased, the operating costs are decreased, the useful life is extended, or the quality of output is improved. Any other expenditure would be considered a repair or maintenance and expensed. The decision on betterment or maintenance will also be affected if engineered structures are recorded as networks instead of by component.

iii. When should assets be recorded?

The question of when an asset should be amortized should be addressed in a separate section of your municipality's policy. It may be appropriate to determine when newly acquired assets or constructed assets will be recorded in the asset record system.

iv. How should an asset be recorded?

Many tangible capital assets will be recorded as single items. However, some will be treated differently and policies should be developed to achieve consistent treatment. Examples of these situations are noted as follows:

- *Network or component*
  Engineered structures such as a road system may be recorded as a single asset; i.e. a network. The major components of the structure will be recorded and valued as one asset. The alternative approach is to record the major components separately. Buildings may also be recorded using the component approach. Recommended Guideline #5 – Networks, Components and Segmentation (page 40), summarizes these options. Recording treatments can vary for different asset classes or construction timing; for example, existing structures may be recorded as networks and new structures recorded in components.

- *Segmentation*
  Asset records for linear infrastructure may be separated by geographic location. For example, roads or waterworks can be recorded for each block, mile, subdivision, etc.

- *Pooling*
  Some assets are similar in type and cost and exceed the capitalization threshold. Therefore, these assets should be capitalized, but it is easier to record them as one asset. This is referred to as 'pooling' assets. Examples are computers, small culverts, and fire hydrants. Your municipality should decide whether this option is suitable for certain assets. One question to answer is: Should these assets still need to be individually tracked? If so, how it would be done using the pooling method?

- *Groups*
  Some assets are identical with a unit value below the capitalization threshold, but have a material value as a group. Recommended Guideline #3 - Capitalization Thresholds (page 36) suggests that these expenditures would be expensed. The municipality should address this situation in policy.

v. What about assets that are developed or constructed?

Your municipality will be recording assets that are developed or constructed and may be under construction at the end of the fiscal year. The following questions regarding these assets need to be considered:

- When will the asset be capitalized?
- What will be the capitalization process when the asset is not completed and not in service at the end of the fiscal year?
- *Will* the asset be in a 'construction in progress' classification and move to its appropriate classification upon completion?

vi. What assets should be recorded that are outside of policy?

There may be some assets which can be expensed, but their nature or use requires capitalization. These types of assets should be stated in policy. It may be appropriate to establish 'property control' systems so that these assets are inventoried, but are not capitalized.

b. Valuing the asset

i. How will the valuation method be determined?

This question will probably apply only to the implementation of the asset recording system. The actual historical cost, if known, should be used. In the event that the actual historical cost is not available, a decision and valuation process should be established to estimate the historical cost.

ii. How will unique assets be valued?

Contributed or donated assets are to be recorded at fair value. The policy should establish procedures about how the fair value will be determined.

iii. What defines the cost of an asset?

- The cost of purchased assets is the gross amount of consideration paid to acquire the asset. Costs such as non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs should be identified in policy. Discounts and rebates would reduce the total cost.
- The costs attributed to purchasing land should be identified.
- How will the fair value be determined for each asset when two or more assets are acquired for a single purchase price?
- What costs will be included for constructed or developed assets? Will carrying costs be capitalized and, if so, what are the carrying costs? How will these carrying costs be determined and when do they cease being attributable to the asset? How will interest costs be capitalized?

4. Amortization methods and rates

This policy will identify the amortization methods and rates. Questions that should be answered when developing this policy are noted as follows:

a. Will one amortization method be used or various methods?

Recommended Guideline #2 - Useful Life and Amortization Methods (page 29) identifies various amortization methods which can be used. The guideline states that the straight-line method is the most common and can be used to amortize all assets. It should be noted that land is not amortized. Some assets may require an alternate amortization method (i.e. declining balance, unit of output) to provide better information related to asset management. If that is the case, these asset types should be identified.

b. How will the useful life for each asset be determined?

Recommended Guideline #2 (page 29) provides information on the maximum useful life for most asset categories, but a shorter life may be more appropriate. Information on some specific assets may provide useful life data. This policy should establish the process to determine the proper useful life and also develop a schedule of the useful life for most asset types.

c. How will the residual value of assets be established?

PS 3150.27 states that the residual value should be factored into the amortization calculation if it is considered to be significant. Including a residual value may assist in financial planning for asset replacement. This policy should establish if residual values will be used and, if so, how they will be determined by asset class.

d. When will assets start and stop being amortized?

Recommended Guideline #2 (page 29) suggests that 50% of the annual amortization amount be recorded in the year of acquiring an asset, putting an asset into service or disposing of an asset. Other methods are acceptable, but they should be applied consistently. Examples of other options are:

- to start amortization in the year following purchase and record the annual amount in the year of disposal, or
- to amortize based on the month of acquisition and month of disposal.

5. Reviews and Write-Downs

Decisions on the useful life and appropriate amortization method may change during the life of the asset. PS 3150.29 states that the amortization method and useful life should be reviewed on a regular basis with revisions made when necessary. Capital policies should address this process by answering the following questions:

a. Who is responsible for the periodic review?

A specified staff position may be responsible to ensure that these reviews are being done, but other staff, such as departments, may be responsible to carry out the review.

b. How often should the assets review be conducted? Will this vary for different asset classes?

c. What is the process when the useful life or amortization method needs to be amended?

d. How will asset write-downs be handled? Will there be a waiting period to determine if the factors causing the write-down remain and, if so, how will this waiting period be determined and monitored?

PS 3150.31 – 37 provides information on how to determine when a writedown is required.

6. Maintaining Records

A good initial asset recording system is important, but the records must also be properly maintained into the future. This section should address the following:

a. Who is responsible to ensure that the asset records are current, accurate and complete?

b. What is the process for reporting asset improvements, additions, retirements and disposals?

c. How often are asset inventories to be conducted and by whom?
It is important that the asset records agree with the actual stock; therefore, comparisons need to be conducted periodically.

d. What supporting documentation is required and how will it be filed?
Adequate documentation will be required for future reference and to meet audit requirements. This documentation will include information on how the useful life and value was determined.

7. Asset Disposal

Disposals of assets may occur by sale, trade-in, destruction, loss or abandonment. Your municipality will need to amend your financial records to recognize these events. Capital policies must address this important part of the asset system. Some questions to consider when developing this policy are:

a. What are the criteria to determine when an asset would be defined as surplus? When should surplus assets be disposed?

b. Who is responsible for disposing of assets?

c. What information is required when assets are disposed?

d. What is the accounting process for the proceeds of disposals?

8. Financial System, Asset Recording System and Asset Management System

Your records for tangible capital assets must be integrated as much as possible with other systems to improve efficiency and accuracy. Your municipality should establish policies to:

a. Identify what tangible capital asset systems will be used and how they are expected to interface.

b. Determine who is responsible to approve tangible capital asset-related system changes.

c. Establish the process so that tangible capital assets that are purchased will be interfaced to the other asset-related systems.

d. Determine the structure of the General Ledger chart of accounts.

e. Determine the unique identifier for each recorded asset.

f. Determine what information should be reported, how often and to whom.

9. Financial Reporting and Budgets

Policies should be developed regarding the format for reporting amortization in the financial reports and for the treatment of amortization expense in the annual budget.

3.7 Recording Road and Bridge Assets

POSITION STATEMENT
Roads that are controlled and managed by an Alberta municipality are considered to be that municipality's asset. The municipality should record these assets to comply with the tangible capital asset reporting requirements in accordance with PS 3150.

This requirement also applies to undeveloped road allowances and to infrastructure considered to be part of the road.

RATIONALE
The key question in determining who records an asset is 'Who controls and manages the asset?' Ownership is not considered in the definition of a tangible capital asset.

The CICA/PSAB identifies the following questions to consider when determining who has control:

- *Is the local government the beneficiary of future economic benefits from the assets?*
- *Do the terms and conditions of legislation or a contract transfer substantially all benefits and risks incident to ownership to the local government?*
- *Is the local government responsible for the asset's performance, availability and maintenance?*
- *Does the local government bear all risk of obsolescence, environmental liability, uninsured damage or condemnation of the asset?*
- *Has the local government been using the asset on a continuing basis in the production or supply of goods and services?*
- *Have third parties made significant use of the asset but the local government is able to restrict such use?*
- *Is the local government responsible for the construction costs of the asset and the financial or other implications of cost and time overruns caused by events outside of its control during the construction period, or subsequent warranty repairs?*

The answer to most, if not all, of these questions regarding roads and related infrastructure is that the municipality controls and manages them. Therefore, the municipality is responsible to record them for the purposes of financial statement reporting.

Provincial approval is required for closing a municipal road but that does not impact the overall control and management responsibility of the local government. In fact, the control aspect is retained by the municipality through Section 22 of the *MGA* because the local government is required to initiate the bylaw.

Provincial approval is required primarily to address the impact of the proposed closure on other provincial roads, as well as the public interest. Municipalities also have the power to pass bylaws relating to roads under the *Traffic Safety Act.*

PUBLIC SECTOR ACCOUNTING HANDBOOK

Government assets, including tangible capital assets are defined by the Canadian Institute of Chartered Accountants (CICA) in the following sections of the Public Sector Accounting Handbook:

PS Handbook Section 1000 Financial Statement Concepts:

Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits may be obtained. PS 1000.35

PS Handbook Section 3150 Tangible Capital Assets:

Tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges. PS 3150.02

Tangible capital assets are non-financial assets having physical substance that:

i. *are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;*
ii. *have useful economic lives extending beyond an accounting period;*
iii. *are to be used on a continuing basis; and*
iv. *are not for sale in the ordinary course of operations. PS 3150.05(a)*

MUNICIPAL GOVERNMENT ACT

There are several provisions of the *Municipal Government Act (MGA)* that are relevant to the discussion of whether to record roads and bridges as tangible capital assets.

Title to Roads

The title to all roads in a municipality, other than a city, is vested in the Crown in right of Alberta. MGA 16(1)

The title to all roads in a city is vested in the city unless another Act or agreement provides otherwise. MGA 16(2)

Control of Roads

Subject to this or any other Act, a municipality has the direction, control and management of all roads within the municipality. MGA 18(1)

Subject to this or any other Act, a municipal district also has the direction, control and management of roads and road diversions surveyed for the purpose of opening a road allowance as a diversion from the road allowance on the south or west boundary of the district although the roads or road diversions are outside the boundaries of the municipal district. MGA 18(2)

Road Closure

No road in a municipality that is subject to the direction, control and management of the municipality may be closed except by bylaw. MGA 22(1)

A bylaw closing a road made by the council of a municipality that is not a city has no effect unless it is approved by the Minister of Infrastructure before the bylaw receives second reading. MGA 22(3)

3.8 Accounting Guideline PSG-7: Tangible Capital Assets of Local Governments

This Guideline is to be read in conjunction with the Introduction to Accounting Guidelines contained in the CICA Public Sector Accounting Handbook.

1. The purpose of this Guideline is to provide transitional guidance to a local government on presenting information related to tangible capital assets in notes or schedules to its summary financial statements. This Guideline applies until a determination can be made as to the applicability of TANGIBLE CAPITAL ASSETS, Section PS 3150, to local governments.

2. OBJECTIVES OF FINANCIAL STATEMENTS — LOCAL GOVERNMENTS, paragraph PS 1700.110, requires a local government to provide information about physical assets, which include tangible capital assets, in its financial statements, but it does not provide any further guidance.

3. Tangible capital assets are significant economic resources managed by a local government and a key component of cost in the delivery of many local government programs and services. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals and bridges.

4. The disclosure of information regarding tangible capital assets in a local government's financial statements would provide information about tangible capital assets by major category. Major categories of tangible capital assets would be determined by type of asset, such as land, buildings, equipment, roads, water and other utility systems, and bridges.

5. When a local government has information on some but not all categories of its tangible capital assets, it would disclose the information required and, in addition, those categories of tangible capital assets excluded from that disclosure until the relevant information about the complete stock of tangible capital assets can be provided.

6. A local government would disclose, for each major category of tangible capital assets and in total:

   (a) cost at the beginning and end of the period;

   (b) additions in the period;

   (c) disposals in the period;

   (d) the amount of any write-downs in the period;

(e) the amount of amortization of the costs of tangible capital assets for the period;

(f) accumulated amortization at the beginning and end of the period; and

(g) net carrying amount at the beginning and end of the period.

7. A local government would also disclose the following information about tangible capital assets:

   (a) the method used for determining the cost of each major category of tangible capital assets;

   (b) the amortization method used, including the amortization period or rate for each major category of tangible capital assets;

   (c) the net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;

   (d) the nature and amount of contributed tangible capital assets received in the period;

   (e) the nature and use of tangible capital assets disclosed at nominal value;

   (f) the nature of the works of art and historical treasures held by the government; and

   (g) the amount of interest included in cost in the period.

8. When a local government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets.

9. It may be possible to derive information for recording tangible capital assets from records of departments and agencies that manage those assets. A local government would apply a consistent method of estimating the cost of the tangible capital assets for which it does not have historical cost records, except in circumstances where it can be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset.

10. When recording the initial cost of a tangible capital asset, consideration would be given to whether the net book value of the tangible capital asset is in excess of the future economic benefits expected from its use and, therefore, whether a write-down is required to establish more appropriate cost and accumulated amortization amounts for the asset.

11. Some local government tangible capital assets that are still in use by the local government may not have any unamortized cost remaining because of their age and the amortization period set for that type of tangible capital

asset. A record of such tangible capital assets would, however, need to be set up for asset control purposes. If a local government has the information to estimate the historical cost and accumulated amortization of such fully amortized assets, it would disclose that information. If a local government does not have this detailed information on its fully amortized assets, it would disclose them at an initial value equal to their residual value, where material and previously known. Otherwise it would disclose them at a nominal value.

12. TANGIBLE CAPITAL ASSETS, Section PS 3150, provides further guidance about disclosing information related to tangible capital assets.

TRANSITIONAL PROVISIONS

13. This Guideline applies to fiscal years beginning on or after January 1, 2007. Earlier adoption is encouraged.

4.0 Asset Inventory & Valuation

The change to full reporting of capital assets should be viewed as an opportunity that will lead to enhanced asset management and accountability at the local level. There are three initial steps to implementation, including inventory, valuation and amortization.

Considerations in the inventory process include asset classification, estimating useful life, and establishing thresholds. The workbook provided in section 4.2 (on page 58) outlines the data that should be included in your asset register and is organized into essential, important and optional categories. The excel worksheets on the Municipal Excellence Network website (www.menet.ab.ca/634.asp) may be used as an interim asset register in smaller municipalities.

4.1 Asset valuation methods and manuals

Currently in development.

4.2 Worksheets

Asset Data Guideline

Gathering asset inventory information in a consistent and accurate way is a key factor to the success of the tangible capital asset project. Decisions are required early in your implementation planning about the specific data to include in the asset register. It is important to think about the asset register data both at the point in time when an asset is acquired and later when the asset is in service.

The municipality will need to determine if the asset register will be used for other purposes than compliance with PS 3150. For example, links could be established with risk management, security/safety and scheduled maintenance systems. Asset management systems are not addressed in this guideline but municipalities considering implementing a full asset management system should consider future data requirements as well.

This guideline suggests information to record for each of the major asset categories and some of the minor asset classifications in Engineered Structures. Definitions and/or examples of the data fields are also noted. It is important that each municipality involve their financial software vendor when determining what asset data to record.

Schedule A identifies data fields to consider for the asset register and Schedule B provides definitions for each data field. The data fields are separated into the following categories:

Essential – data essential to meet the PS 3150 requirements
Important – data that should be collected
Optional – data that may be beneficial for future use.

Some of the data fields indicated may only apply in certain situations. Additional information for building and engineered structures is noted as follows:

Roadway
Type of road
Sub surface information
Width and Length
Shoulder/Ditch Width
Pavement Markings
Type of Surface
Sub Surface Information
Sidewalks & Curbs*

Building
Dimensions
Area
Type of building
Construction materials
Use
Handicapped accessible

*Note: Dimensions and location of sidewalks and curbs may be noted if they are part of the road system. If not, an asset number link may be appropriate.

Water/Waste Water/Storm

Water Distribution
Length of main
Size of main
Location of main in right-of-way
Pipe material
Pipe Class

Gas Distribution
Depth buried
Location in right-of-way
Pipe material
Pipe size
Pressure classification
Maximum pressure

SCHEDULE A: SUMMARY OF DATA FIELDS

	Data Fields	*Land*	*Land Improvements*	*Buildings*	*Engineered Structures*	*Machinery & Equipment*	*Vehicles*	*Cultural & Historical*
Essential Data Fields								
Asset Name & #								
	Asset Name	x	x	x	x	x	x	x
	Asset Number	x	x	x	x	x	x	x
Asset Class								
	Major Class	x	x	x	x	x	x	x
	Minor Class	x	x	x	x	x	x	x
	Sub Class	x	x	x	x	x	x	x
Function								
	Department	x	x	x	x	x	x	
	Division	x	x	x	x	x	x	
Physical Description								
	Description #1	x	x	x	x	x	x	x
	Description #2	x	x	x	x	x	x	x
Acquisition								
	Acquisition Month	x	x	x	x	x	x	x
	Acquisition Year	x	x	x	x	x	x	x
Cost								
	Cost	x	x	x	x	x	x	For info only
	Cost Basis	x	x	x	x	x	x	For info only
Amortization								
	Expected Useful Life		x	x	x	x	x	
	Residual Value		x	x	x	x	x	
	Method		x	x	x	x	x	
	Rate		x	x	x	x	x	

Important Data Fields	**Legal Description**	x	x	x	x			x
	Municipal Address	x	x	x	x			x
	Supplier		x	x	x	x	x	
	Manufacturer		x	x	x	x	x	
	Model					x	x	
	Serial Number					x	x	x
	Location		x		x	x	x	x
Condition Assessment	**Date Reviewed**		x	x	x	x	x	
	Condition Code		x	x	x	x	x	
	Replacement Due Date		x	x	x	x	x	
Disposal	**Disposal Date**	x	x	x	x	x	x	x
	Disposal Proceeds	x	x	x	x	x	x	x
	Disposal Method	x	x	x	x	x	x	x
Optional Data Fields	**Inventory #**	x	x	x	x	x	x	x
	Land Titles Link #	x						
	Tax Roll #	x	x	x	x			x
	Assessed Value	x	x	x	x			x
	Size	x	x	x	x			x
	Colour					x	x	x
Other Information or links	**Risk management**		x	x	x	x	x	x
	Security and safety					x		
	Maintenance		x	x	x	x	x	x

SCHEDULE B: FIELD DESCRIPTORS

	Heading	Field Name	Description	Example
ESSENTIAL INFORMATION	Asset Name & #	Asset Name	Common name of asset.	Town Office; Gravel Truck; Swimming Pool
		Asset #	Unique identifier number for the asset.	Could be generated by the software being used; could be an inventory sticker.
	Asset Class	Major Class	Numerical code for the major class of asset.	Land=##, Land Improvements=##, Buildings=## etc.
		Minor Class	Numerical code for the minor class of asset if required.	Minor asset classes included in the Engineered Structures category.
		Sub Class	Numerical code for the sub class of asset if required.	
	Function	Department	Name of responsible department. This will link to the appropriate GL accounts for asset values and amortization.	Administration; Recreation; Public Works; or use numeric description for department
		Division	Name of responsible sub department.	Arena # 1; Lions Park; Memorial Park
	Physical Description	Description #1	Meaningful description of the asset.	
		Description #2	Additional description of the asset if required.	
	Acquisition	Acquisition Month	Month asset was acquired and placed into service.	
		Acquisition Year	Year asset was acquired and placed into service.	
	Cost	Cost	Historical cost of asset.	A $ value.
		Cost Basis	Method of costing used.	Actual; Estimate; Donated;
	Amortization	Expcted Useful Life	The estimated life the asset will be used by the municipality.	
		Residual Value	The estimated remaining value the asset will retain when the useful life has expired. (Salvage value)	A truck is purchased for $30,000 with an expected sale value at the end of it's useful life of $5,000. The $5,000 is the residual or salvage value.
		Method	The method used to amortize the asset.	Straight line; unit of use; decling balance (straight line is recommended for most asset types)
		Rate	The rate of amortization to be applied based on the useful life of the asset.	If using straight line and the expected life is 5 years, the amortization rate is 20%/year

	Heading	Field Name	Description	Example
IMPORTANT INFORMATION		Legal Desc.	The legal description of the land or the land the asset is affixed to.	Lot 1, Block 1, Plan 902 3262
		Municipal Address	The municipal address associated with the legal description.	123 Main Street
		Supplier	The supplier of the asset or the contractor providing the asset.	Main Street Ford Sales; ABC Contracting Ltd.
		Manufacturer	The manufacturer of the asset.	Ford
		Model	The model of the asset.	F250
		Serial #	The serial number or the VIN affixed to the asset.	PBC23489PUYRT547689
		Location	The usual location of the asset.	PW Shop; Room 2A of Admin Building;
	Condition Assessment	Date Reviewed	The date the asset was last reviewed for impairment.	
		Condition Code	The condition code of the asset. Note that a municipality will need to establish it's own standards to rate the condition of an asset.	Good/Fair/Poor/Bad; Yes/No; Numerical Rating
		Replacement Due Date	The anticipated replacement date of the asset. This date should relate to the acquisition date and the expected useful life date.	A truck is purchased on January 1, 2007. The estimated useful life is determined to be 5 years. Therefore, the replacement due date should be January 1, 2012.
	Disposal	Disposal Date	The date the asset is sold, discarded or otherwise taken out of service.	
		Disposal Proceeds	The amount realized from the disposal of the asset.	A $ value.
		Disposal Method	The method used to dispose of the asset.	Sold; Discarded; etc.
OPTIONAL INFORMATION		Inventory #	Can be different from the asset # if required.	
		Land Titles Link #	The # provided on the land title documentation.	
		Tax Roll #	The tax roll # in the tax system.	
		Assessed Value	The value the assessor has determined for the asset.	
		Size	The size of the asset described in units of measure such as volume, length, width, area.	1000 lineal meters of 8" PVC piping.
		Colour	The colour or primary colour of the asset.	Blue with white trim
		Risk Management		Link to information required for insurance purposes.
		Security & Safety		Link to information on firearms, etc.
		Maintenance		Link to fleet management system.

5.0 Budgets

Currently in development.

6.0 Financial Reporting

6.1 Financial Reporting Draft Note – PSG7

The wording in italics contained in the following note should be tailored to the individual municipality depending on its particular circumstances. In most cases it should be omitted entirely in not applicable. This draft note was prepared by a GFOA working group.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of [*Insert name*] ("The Municipality") are prepared by management in accordance with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants ("CICA").

x) Physical Assets

i) Tangible Capital Assets

Effective January 1, 2007, The Municipality adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants ("CICA") with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets until Section 3150 - Tangible Capital Assets of the Public Sector Accounting Handbook comes into effect on January 1, 2009.

[Prior to January 1, 2007, The Municipality previously recorded tangible capital assets including assets held under capital leases at cost in the period they were acquired on the statement of financial position and as an expenditure within the capital fund. Certain capital assets in the [...list names of business units or entities...] were amortized on a [identify basis – i.e. straight-line basis] over their estimated useful lives... [or indicate that assets were not previously amortized].

During 2007, The Municipality continued to work towards compliance with the new recommendations for accounting for tangible capital assets. As of December 31, 2007, The Municipality... *[*provide a status update][*.....had obtained a complete listing and values for [...identify asset classes i.e. all land, buildings, engineered structures, machinery and equipment and vehicles...]. A complete listing of assets and values for the [...identify asset classes for which listing are not yet completed...] is currently underway and expected to be completed by December 31, 2008].*

As of January 1, 2007, capital assets including assets held under capital leases are recorded at cost in the period they are acquired and recorded as an expenditure within the capital fund. Donated assets related to waterworks and wastewater distribution and collection systems are capitalized and are recorded at their estimated fair value upon acquisition. Works of art for display in municipal property are not included as capital assets. Certain capital assets for which historical cost information is not available has been recorded at current fair market value discounted by a relevant inflation factor.

The Municipality does not capitalize interest as part of the costs of its capital assets. Certain assets such as [*...list assets...*] are disclosed at a nominal value as the determination of a fair market value for these types of assets is not appropriate.

x) Physical Assets

ii) Tangible Capital Assets, continued

As of January 1, 2007, amortization for [*...identify asset classes...*] is presented in the notes to the financial statements. Amortization is not recorded as an expense. Amortization for the [*...identify asset classes...*] classes is expected to be presented in the [*...identify year...*] financial statements and is calculated on a [*...identify basis – i.e. straight-line basis...*] over an asset's estimated useful lives as follows:

	YEARS
Land Improvements	
Buildings	xx-xx
Engineered structures	
Roadway system	xx-xx
Light rail transit system	xx-xx
Water system	x-xx
Wastewater system	xx-xx
Storm system	xx-xx
Fibre optics	xx-xx
Electricity system	xx-xx
Gas Distribution system	xx-xx
Machinery and equipment	
Vehicles	x-x

This is the Note that backs up the balance appearing on the SFP and discloses the information required in PSG-7, Item 6 and some of Item 7.

Note that asset class descriptions (i.e. Land, Buildings, Engineered Structures, Machinery & Equipment, and Vehicles) noted below will be amended based on the conclusions/recommendations of Group 1.

XX. TANGIBLE CAPITAL ASSETS

2007

	Cost - Beg. of Year	Additions	Disposals	Write-downs	Cost - End of Year	Amortization in Year	Acc. Amort	NBV
Land	465,000	500,000	25,000	(10,000)	980,000	-	-	980,000
Buildings	1,000,000	1,000,000	-	-	2,000,000	(75,000)	(125,000)	1,875,000
Engineered Structures	1,250,000	1,250,000	-	(15,000)	2,485,000	(50,000)	(75,000)	2,410,000
Machinery & Equipment	1,250,000	1,250,000	60,000	-	2,560,000	(45,000)	(80,000)	2,480,000
Vehicles	250,000	-	-	-	250,000	(15,000)	(25,000)	225,000
	4,215,000	4,000,000	85,000	(25,000)	8,275,000	(185,000)	(305,000)	7,970,000
Work in Progress								
Land	50,000	50,000	-	-	100,000	-	-	100,000
Construction	75,000	75,000	-	-	150,000	-	-	150,000
	4,340,000	4,125,000	85,000	(25,000)	8,525,000	(185,000)	(305,000)	8,220,000

A Municipality would use the 2006 table below if they had any values recorded for tangible capital assets in their financial statements in prior years. If not, they would just show the 2007 table above with an opening cost at the beginning of the year of nil for each of the asset classes.

2006

	Cost - Beg. of Year	Additions	Disposals	Write-downs	Cost - End of Year	Amortization in Year	Acc. Amort	NBV
Land	-	500,000	(25,000)	(10,000)	465,000	-	-	465,000
Buildings	-	1,000,000	-	-	1,000,000	(50,000)	(50,000)	950,000
Engineered structures	-	1,250,000	-	-	1,250,000	(25,000)	(25,000)	1,225,000
Machinery & Equipmen	-	1,250,000	-	-	1,250,000	(35,000)	(35,000)	1,215,000
Vehicles	-	250,000	-	-	250,000	(10,000)	(10,000)	240,000
	-	4,250,000	(25,000)	(10,000)	4,215,000	(120,000)	(120,000)	4,095,000
Work in Progress								
Land	-	50,000	-	-	50,000	-	-	50,000
Construction	-	75,000	-	-	75,000	-	-	75,000
	-	4,375,000	(25,000)	(10,000)	4,340,000	(120,000)	(120,000)	4,220,000

Amortization of assets in the amount of $185,000 (2006 – $120,000) has been recorded [*indicate how recorded in the Municipality's financial statements*], and amortization related to total donated assets of $xxx,xxx (2006 - $xx,xxx) in the amount of $xx,xxx (2006 - $xx,xxx) has been recorded as a reduction to equity in physical assets. Capital assets included in work in progress are not amortized. The Municipality's assets include $xx,xxx (2006 – $xx,xxx) in assets which are not being amortized as they have been removed from service.

Definitions

Currently in development.

Newsletters

Alberta Municipal Affairs and Housing publishes quarterly newsletters providing the latest information and updates on the Tangible Capital Assets Project. For future newsletter editions, please visit the Municipal Excellence Network website at www.menet.ab.ca/620.asp.

FAQ's

What is a Tangible Capital Asset?
A tangible capital asset (TCA) is a significant resource managed by governments and a key component in the delivery of many government programs; TCAs include infrastructure, land, land improvements, buildings, vehicles and equipment.

What is the TCA requirement?
Local governments in Canada will be required to record, report and amortize TCAs over their expected useful life. The annual amortization is to be recorded as an expense. This requirement is to be completed and reported on for 2009 with a progress report in the financial statement notes beginning in 2007.

Who decided to make this requirement?
The Canadian Institute of Chartered Accountants (CICA) sets accounting, reporting and audit standards in Canada. These standards are recognized by the accounting community in Canada. The CICA's Public Sector Accounting Board has the authority to establish public sector standards for governments.

What will be the benefits of the change?
Governments will gain a better appreciation of the stock and the costs of using assets over their useful life, leading to improved decision making and accountability for the management of capital resources. Better information will be available to determine future funding requirements and to establish user fees and tax rates.

What about determining the 'infrastructure gap?'
Meeting the TCA requirement is a good first step towards determining the gap between infrastructure needs and available funding. TCAs are to be recorded at historical cost. A properly developed asset management system, including replacement costs, needs to be implemented to fully determine the infrastructure gap.

What if the new standard is not followed?
TCAs represent a significant part of a government's assets; therefore, non-compliance will probably result in a 'qualified' audit report or a denial of opinion. Qualified reports attract concern and suspicion to an organization's operations and future financial planning may be hampered.

How has the Government of Alberta approached this project?
Alberta Municipal Affairs and Housing has taken a leadership role to research the various implications for Alberta municipalities. A key partnership has been established between the Alberta Government Finance Officers Association and the ministry to develop technical materials and information, and sponsor training sessions. Communication with municipal organizations has been a high priority.

Who are the key stakeholders for the project?
The tangible capital asset requirement will impact every municipality in Alberta. A Liaison Committee meets on a regular basis to discuss the project from the perspective of their respective memberships. The committee includes representatives from the Alberta Urban Municipalities Association, the Alberta Association of Municipal Districts & Counties, the Alberta Association of Rural Municipal Administrators, the Local Government Administration Association, the Government Finance Officers Association and Alberta Municipal Affairs and Housing.

What materials have been prepared?
The Alberta project has decided to make use of materials and experience from other provinces, the United States and the Public Sector Accounting Board in order to reduce duplication. This has allowed us to develop recommendations and how-to guidelines on Alberta specific topics and reference existing work. Members of the Government Finance Officers Association assisted the ministry to develop the recommended guidelines and other materials in this toolkit.

Is training available?
The TCA project can be implemented in the following stages; inventory, valuation and amortization. Workshops were held from March to June 2007 to review the TCA requirements, present information on recommended guidelines, and discuss implementation plans and budgets. AUMA recently hosted two web casts with similar content. Workshops for municipal administration and staff are tentatively planned for late 2007 to begin to deal with financial reporting changes and budgets.

What are some unanswered questions?
What will be the impact on financial position and budgets? Will tax rates need to increase? The TCA requirement allocates the cost of an asset over its estimated life but it does not provide a mechanism to fund replacement or rehabilitation. However, non-cash items will now be on the income statement (amortization expense), which will impact annual budgets and the application of balanced budget legislation.

The Canadian Institute of Chartered Accountants is also changing the financial statement format for local governments effective in 2009. Position papers addressing impacts and providing recommendations have yet to be finalized.

Where can I get more information about the project?

A dedicated web page with all of the TCA materials and a discussion board is located the Municipal Excellence network (MEnet) website at www.menet.ab.ca/TCA. The implementation toolkit and all future updates will be housed on the MEnet. Updates will be made to the toolkit regularly as new materials are completed.

Who should I contact for more information?

Contact Financial Advisory Services at 780-427-2225 if you have any questions. Dial 310-000 to call toll-free within Alberta.

Other Resources

Here you will find links to information from Alberta and all across Canada.

Chartered Accountants of Canada

www.psab-ccsp.ca/index.cfm/ci_id/3952/la_id/1.htm

Reporting Model and Tangible Capital Assets (Local Government) - A summary of the reasons for the project, the activities that have been completed thus far, the background for the project, what the next steps are and additional information.

Government of Ontario: Ontario Municipal Benchmarking Initiative (OMBI)

www.ombi.ca/docs/db2file.asp?fileid=184

Municipal Guide to Accounting for Tangible Capital Assets (Version 2) - The Ontario Municipal Benchmarking Initiative (OMBI) is a partnership of 15 municipalities in the Province of Ontario that has adopted the mission of promoting service excellence in municipal government.

This guide aims to give municipal financial officials and operational managers practical information and tools to set up and operate a TCA accounting system. It is based on both the prescribed standard and the experience of the six pilot sites. This guide does not, however, replace the need for the extensive planning and discussions that will be required among a municipality's professional finance staff, its external auditor and its operational management in implementing such a system.

Government of British Columbia:

www.fin.gov.bc.ca/ocg/fmb/manuals/FAP/FAP_I.htm

This is a link to the tangible capital assets section of the core policy and procedures manual of BC's Ministry of Finance and the Office of the Comptroller General. Here you will find a detailed example outlining the process for dealing with tangible capital assets as defined by BC's Ministry of Finance.

Government of the Yukon:

www.finance.gov.yk.ca/publications/budgets/budget05-06/2005-06om_glossary.pdf

Explanatory notes and glossary: tangible capital assets - The 2005-06 Main Estimates reflect a new accounting policy for tangible capital assets adopted in 2004-05 by the Government of Yukon in accordance with the Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB) guidelines. Implementation of this new accounting policy brings the government closer to the accounting policies that have been utilized by the private sector for many years.